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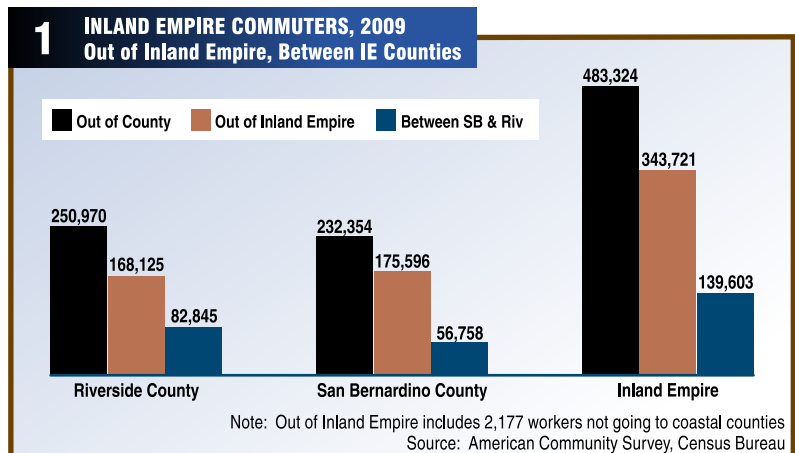
DEVELOPING A HIGH-END INLAND EMPIRE ECONOMIC STRATEGY

John E. Husing, Ph.D.

One of the questions constantly asked about the Inland Empire's economy has been, "why has this economy been unable to create or attract high-end jobs?" Such jobs have been variously defined as: good paying jobs; employment for people with college degrees; jobs for professionals, scientists and engineers; or positions in sectors like bio-tech or alternative energy that are regarded as likely to set the economy's technological future.

Lack of growth in these types of sectors is often seen as being responsible for several ills confronting the Inland Empire. For instance, the region faces a daily "brain drain" as lack of local jobs has forced educated workers to commute to the coastal counties. This difficulty increased in the last decade when many such workers moved inland for affordable upscale homes. A similar concern is raised by the large number of local university graduates who moved away because there were no high-end job openings for them. Meanwhile, a look at 598 common occupations in the inland and coastal counties found just 10.0% of inland jobs were in occupations paying \$70,000 or more in 2010. That was well below the shares in San Diego (17.7%), Orange (17.6%) and Los Angeles (16.8%) counties.

How Many Commuters? Just how large an issue is commuting? In 2009, the Census Bureau's American Community Survey of local residents found that there were 343,721 workers living Riverside

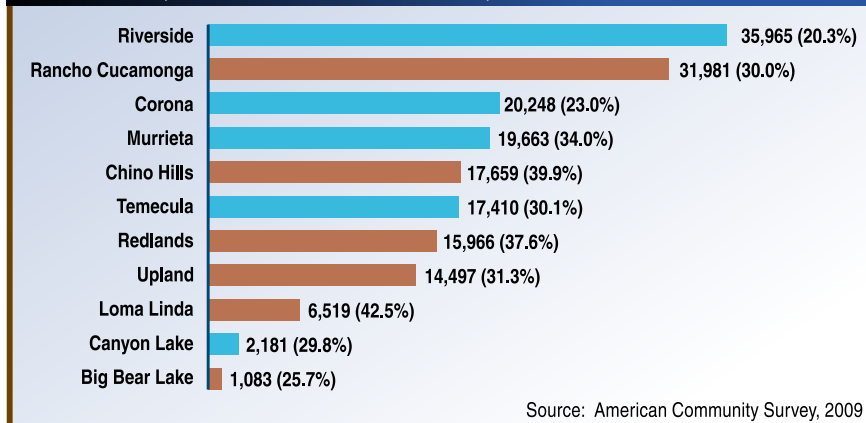


(168,125) and San Bernardino (175,596) counties who were commuting to jobs outside the Inland Empire. Of these, all but 2,177 were headed for other metropolitan areas, meaning they were largely driving to Los

Continued on page 2

Angeles, Orange and San Diego counties. Interestingly, commuting across the county lines saw 82,845 Riverside County workers going to San Bernardino County, and 56,758 workers driving the other way (*Exhibit 1*). In 2000, the ratio was 60,412 Riverside-to-San Bernardino and 52,016 the other way.

2 WESTERN INLAND EMPIRE CITIES, ADULTS WITH BA OR HIGHER DEGREES, 2009 Over 10,000 Adults & Over 20% of Adults; or Over 25% of Adults



Inland Empire commuters represented 21% of the 1,627,806 employed residents in 2009, compared to 20% of the 1,249,224 workers in 2000. The share was quite stable. That said, as the economy grew from 2000-2009, the number of commuters increased by 94,519 from 249,202 to 343,721.

Who Commutes? Very important has been a change in who is commuting. As a fast growing area, the Inland Empire has generally seen its most recent arrivals become its newest generation of commuters. Thus, the Western Riverside Council of Governments found that for residents of 15 or more years, 73% worked internally. That compared to just 44% for residents living in the area less than a year. In earlier times, large numbers of new arrivals were workers in blue collar sectors. In the last business cycle with upscale housing a major element, a large number of new residents worked in higher paying jobs.

This upscale job effect can be indirectly seen in looking at adult educational levels of the best educated Inland Empire cities. This was measured by reviewing non-desert inland cities with over 10,000 adults having bachelors or higher degrees, as long as they made up over 20% of the adult population. Added to the list were smaller cities where over 25% of adults were well educated (*Exhibit 2*). With three exceptions (*Redlands, Loma Linda, Big Bear*), these cities saw an influx of well educated residents into new upscale neighborhoods arriving from Los Angeles (*Rancho Cucamonga, Chino Hills, Upland*), Orange (*southern Riverside, Corona, Chino Hills, Canyon Lake*), or San Diego (*Murrieta, Temecula*) counties.

It is in these cities and nearby office markets that economic development strategies should have the most success in seeking to add firms needing well educated workers. They are also the cities where residents have the greatest need to see such strategies succeed.

High-End Pay Scales. Of the 598 occupations in common between the inland and coastal counties, 138 paid

\$70,000 or more in the coastal counties. These are the jobs that a high-end Inland Empire economic strategy would like to see grow. Inland workers in these types of jobs are paid an average of \$86,806. That compared to \$93,489 (7.70% higher) in San Diego, \$94,768 (9.17% higher) in Los Angeles and \$94,806 (9.22% higher) in Orange counties (*Exhibit 3*). These calculations were made weighting each county's occupational pay by the inland area's job level to eliminate the impact of differing job mixes. The difference can be viewed two ways: a pay scale advantage for higher end firms to migrate to the Inland Empire or a reason for local well-paid workers to continue commuting to the coastal counties.

Office Space. Many high-end firms operate from office complexes. Here the availability and cost of such space are important. In the Inland Empire, the second quarter 2011 vacancy rate was 24.2% with 6.8 million square feet of total space available and a Class A cost of \$1.94 per square foot per month. That contrasts with 18.4% vacancy, 15.9 million sq. ft. of available space and a \$2.16 sq. ft./mo. class A rate in Orange County; a 17.4% vacancy rate, 12.0 million sq. ft. of available space and a \$2.53 sq. ft./mo. class A rate in San Diego County; and 16.5% vacancy, 31.4 million sq. ft. available, and a \$2.92 sq. ft./mo. class A rate in Los Angeles County.

Altogether, the inland region thus has a good deal of space available, much of it new and a cost advantage ranging from 10.2% to 33.6% below the three coastal counties. For 5,000 square feet of Class A space on monthly basis lease rates are \$1,100 less than Orange County; \$2,950 less than San Diego County and \$4,900 less than Los Angeles County.

Should there be greater demand for office space in the Inland Empire? Yes. Every ratio of office space to local activity shows the area being underserved (*Exhibit 11*). For example, there are just 5.0 square feet of occupied office space per person, well under the Orange (23.2 sq. ft./person), San Diego (18.3 sq. ft./person) and Los Angeles (16.1 sq. ft./person) county ratios. The same is true for the inland area's occupied office space per local job of 18.8 square feet compared to the Orange (51.8 sq. ft./job), San Diego (46.3 sq. ft./job) and Los Angeles (42.0 sq. ft./job) county ratios. Population serving office operations like law firms, CPAs and financial advisers have tended not to serve the inland area from the coastal counties. Major high-end operations like financial, engineering, info-tech or scientific firms have done so as well.

As with occupational pay, the Inland Empire's space offers firms an advantage to migrate. However, the congregation of such operations near one another in the coastal counties, together with the existence of a great deal of vacant space, particularly in Orange County, has likely been inhibiting firms from considering migrating inland, as has the region's stalled economy.

Existing High-End Firms. Are there firms around which a high-end economic strategy could be formed? Again, yes. In several important sectors, the region has major

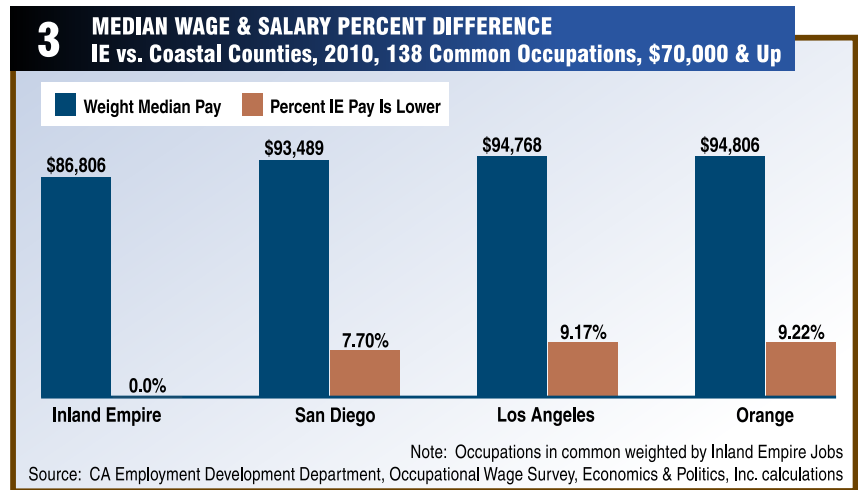
highly paid operations. In Redlands, ESRI employs about 2,000 high-end programmers and controls a huge share of the world **Geographic Information Systems** market. **Steel** firms employ highly paid workers at plants such as California Steel, Schlosser Forge and Tamco in Fontana and Rancho Cucamonga. **Defense** firms dot the region including, among others, Raytheon in Rancho Cucamonga, Exotic Elettro-Optics in Murrieta, Armtech Defense Products in Coachella, BAE Systems in Ontario, Northrup Grumman in San Bernardino and Riverside, and the largely civilian Naval Warfare Assessment Center in Norco. **Medical technology** includes numerous advanced medical centers such as Loma Linda University Medical Center, Eisenhower Medical Center in Rancho Mirage and the Optivus Technology's proton therapy operation in San Bernardino. **Medical** and **bio-medical products** are produced at several inland facilities including Corona's Watson Pharmaceutical, the world's fourth largest generic drug manufacturing firm, and Abbott Cardiovascular Systems and Millipore Corporation in Temecula. Important **engineering** product development occurs at firms like Tamarack Scientific in Corona, Bournes in Riverside and International Rectifier and Opto 22 in Temecula.

Aircraft maintenance is a growing node of activity with well-paid airframe and power plant mechanics working at firms like Southern California Aviation, GE Engine and Boeing in Victorville, with Boeing conducting flight tests in San Bernardino. **Entertainment** related operations are represented with Garner Holt Productions in San Bernardino and Penwall Industries in Rancho Cucamonga providing animatronics and other technical products to places like Disneyland, and the famous Fender Guitar plant in Corona, and the Palm Springs International Film Festival group. **Mining** has a major presence and employs highly paid workers at plants like California Portland Cement in Colton, Robinson Ready Mix and several other facilities in Corona, Specialty Minerals in Lucerne Valley, Searles Valley Minerals Operations in Trona and Molycorp Minerals in Mountain Pass. **Logistics** includes the large AMTRAK reservation center in Riverside and recently has seen the rise of the technologically sophisticated Sketchers warehousing and management facility in Moreno Valley.

Strategic Directions. Given this background, there is the basis for the development of Inland Empire high-end economic strategies, whatever the definition. Here, the starting point must be further discussions with the existing firms in these sectors to understand what competitive advantages or flukes of history caused them to be in the inland area, and what issues make it difficult for them to expand. Also, the industry discussions should include finding out what can be done to bring similar firms to the inland area. Here several questions are important: How important is the availability or lack of availability of educated or skilled workers at competitive costs? To what extent is the availability of inexpensive office space an advantage? Is the existence of

local major universities truly an advantage and why? What is the most effective way to reach firms that should be considering the Inland Empire? What information would be relevant to them?

Strategies based upon the answers to these questions in the various sectors then need to be designed. Some need to be aimed at overcoming barriers hurting the region's competitive positions whether from regulatory agencies, state laws, local permitting processes, infrastructure development, educational programs or quality of life issues. Others need to involve outreach to well-educated commuters and local graduates who could fill roles in specific sectors. Where gaps exist for



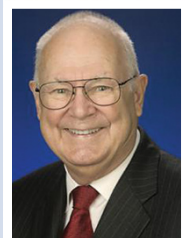
skilled workers are identified, educational undertakings to close them need to be framed. Ultimately, outreach programs to the types of firms that could benefit from being in the inland region need to be designed.

Based upon interviews to date, it appears that efforts to expand high-end sectors in the Inland Empire will likely be the most successful if they are tailored to the unique characteristics of each of the existing high paying sectors. The first steps in this process have already begun with the interviews undertaken as part of SCAG and Inland Empire Economic Partnership outreach efforts. Already, some successes have occurred such as Riverside Chamber of Commerce's work in lowering business costs in that city, Kelly Space and Technology's creation of a highly successful production machinist training program, and the Coachella Valley Economic Partnerships Pathways to Success effort that has of over 1,000 local students training for local priority sectors. However, these efforts only scratch the surface of the level of effort needed if high-end work is to become a major part of the inland area's economy. ■

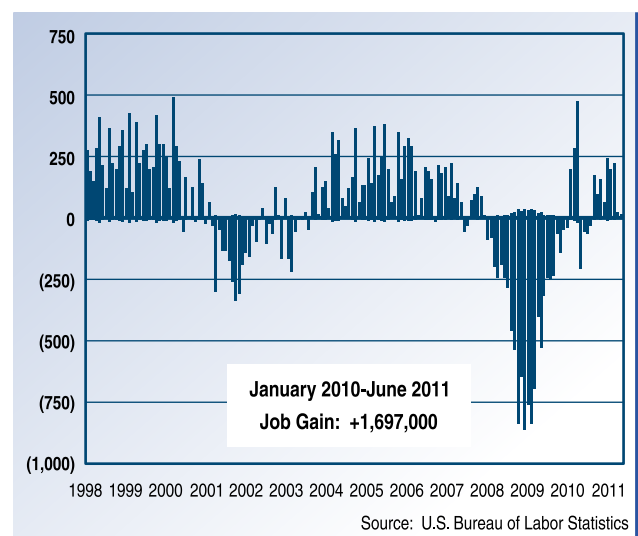
For further information on the economic analysis in the QER, visit Dr. John Husing's website at:

www.johnhusing.com

You'll also find pages on Dr. Husing's background, speaking engagements, downloadable presentations, adventures, and other items of interest.

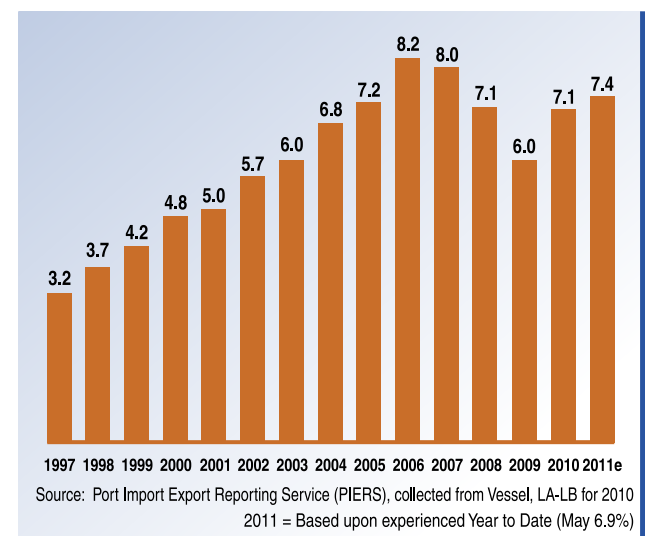


4 JOB CREATION OR DESTRUCTION U.S., 1998-2011, Seasonally Adjusted (000)



U.S. Employment. During the worst of the recession, the U.S. lost -8.36 million jobs. Beginning in January 2010, the national job market finally began a slow recovery with 1,697,000 jobs created through June 2011. That represents 20.3% of the jobs lost in the downturn, leaving 6,966,000 that have not been recreated. In June 2011, the unemployment rate was 9.2%, down from a high of 10.1% in October 2009. After a surge in the first quarter of 2011, job creation nearly disappeared in May and June as cutbacks in public budgets overwhelmed private sector job creation.

5 FLOW OF IMPORTED CONTAINERS Los Angeles / Long Beach Ports, 1997-2010 & 2011e (million teus)



Port Volumes. Container imports through the ports of Los Angeles/Long Beach soared through 2006, reaching 8.2 million twenty foot equivalent units (*teus*). With the worldwide recession, imports fell -164,000 *teus* in 2007, -882,000 in 2008 and -1,132,000 in 2009 taking total imports down 26.7% to 6.0 million *teus*. In 2010, a strong recovery occurred with volume up 1,107,00 or 18.7%. In 2011, the rate of increase has been 6.9% through May which would annualize to a gain of 493,000 *teus* to 7.4 million. Imports are crucial to supporting jobs in the Inland Empire's trucking and warehousing sectors.

6 INLAND EMPIRE INTERNATIONAL TRADE VALUE 2007-2008

| NAICS - Description | Export Value 2007 | Export Value 2008 By Commodity | Top Destinations | Export Value 2008 By Destination |
|--|------------------------|--------------------------------|-------------------|-------------------------------------|
| 336 - Transportation Equipment | \$710,338,051 | \$1,214,848,771 | 19.5% Canada | \$1,503,823,388 24.1% |
| 339 - Misc. Manufactured Commodities | \$825,072,934 | \$1,051,553,349 | 16.8% Netherlands | \$601,617,736 9.6% |
| 334 - Computer And Electronic Products | \$951,176,033 | \$1,042,410,519 | 16.7% Mexico | \$596,311,595 9.6% |
| 333 - Machinery, Except Electrical | \$462,058,580 | \$470,403,185 | 7.5% Japan | \$396,038,308 6.3% |
| 325 - Chemicals | (NA) | \$374,802,402 | 6.0% China | \$354,155,799 5.7% |
| 332 - Fabricated Metal Products | \$343,962,806 | (NA) | | |
| RES - All Others (Residual) | \$1,678,263,823 | \$2,087,463,480 | 33.4% Other | \$2,789,534,880 44.7% |
| TOTAL | \$4,970,892,227 | \$6,241,481,706 | 100.0% | TOTAL \$6,241,481,706 100.0% |

Source: International Trade Administration

International Trade. International trade from the Inland Empire reached a peak of \$6.2 billion in 2008. By commodity, the largest share was transportation equipment (19.5%) followed by miscellaneous manufactured goods (16.8%) and computer and electronic products (16.7%). Showing the importance of NAFTA, the major trading partners were Canada (24.1%), Netherlands (9.6%) and Mexico (9.6%). Details in 2009 are unavailable but volume fell to \$5.4 billion (-14.2%), after surging 18.6% in 2007 and 25.6% in 2008. Trade in the Los Angeles Customs District, including the inland area, fell -20.5% in 2009, but rose 23.6% in 2010.

7 STATUS OF PROBLEM HOMES May 2011

| Category | Riverside | San Bernardino | Inland Empire |
|------------------------------|-----------|----------------|---------------|
| Total Single Family Homes | 524,172 | 517,289 | 1,041,461 |
| Sold 2004 thru 2007 | 208,117 | 150,927 | 359,044 |
| Borrowed Equity (75%) | 156,088 | 113,195 | 269,283 |
| Troubled Homes | 364,205 | 264,122 | 628,327 |
| Notices of Default (NOD) | 188,580 | 150,195 | 335,285 |
| NOD Share of Troubled Homes | 51.8% | 56.9% | 53.4% |
| Notices of Trustee Sale | 157,976 | 124,456 | 283,397 |
| Back to Bank or To 3rd Party | 102,681 | 78,818 | 178,397 |

Sources: Foreclosureradar.com

Problem Homes. In the 2004-2007 boom, 359,044 inland homes were sold. With prices now at 2003 levels, all are likely underwater. If 75% of that number represents other families who borrowed "equity" in that period, another 359,044 have been in trouble, yielding **628,327 problem homes**. To date, 335,285 have received Notices of Default (51.8%), leaving 293,042 underwater with unknown status. Of homes receiving NODs, 283,297 got Notices of Trustee Sales as they did not become current, leaving 42,243 in unknown status. Of those with NTSs, lenders took 178,397 homes, leaving another 105,000 in unknown status. The status of a total of **492,173 problem homes is thus unknown**.

INLAND EMPIRE EMPLOYMENT ... PUBLIC SECTOR LOSSES NOW THE KEY

Comparing January-May of 2010-2011, the Inland Empire is down an average of -3,870 jobs. Of this, a gain of +1,190 jobs in the private sector was overwhelmed by a -5,060 loss of governmental jobs (*Exhibit 9*). State and local budget issues, plus the end of the federal stimulus and census, caused the public sector decline. In May 2011, the economy was down -5,200 private jobs from May 2010 and -10,800 public jobs (6,600 census workers) (*Exhibit 8*). The 13.2% unemployment rate is down from a peak of 15.1% in July 2010 largely because 40,800 people have quit looking for work. It is the highest among the 50 large U.S. metropolitan areas.

CLEAN WORK, GOOD PAY: -6.2%

Since May 2010, the Inland Empire's highest paying sectors lost -12,000 jobs (-6.2%). Federal and state government lost -7,100 (-15.3%) including -6,600 census workers. Management and professions lost -2,800 (-6.5%) going to the lowest level since late 2004. Local government dropped -2,500 jobs (-3.1%) due to tight budgets. Mining lost -100 jobs (-9.1%) with limited construction. Utilities added 100 (+1.8%) with slow population growth. Higher education added 400 (2.4%) with people going back or staying in school (*Exhibit 8*).

CLEAN WORK, MODERATE PAY: +0.9%

Sectors primarily paying moderate incomes to white collar workers gained 2,700 jobs (+0.9%) from May 2010-2011. Health care added 3,500 (+3.4%) as it continued growing to meet population needs. Financial groups added 1,500 jobs (+3.6%) and administrative support gained 200 (0.5%) as banking and insurance groups revived. Information firms stopped shrinking and added 100 jobs (+0.6%). Only K-12 education shrank, with tight budgets eliminating 2,600 jobs (-2.4%).

| 8 INLAND EMPIRE EMPLOYMENT INFORMATION 2010-2011 | | | | | | |
|---|------------------|------------------|------------------|------------------|-----------------|--------------|
| Sector | Mar-11 | Apr-11 | May-11 | May-10 | May 10-11 | Percent |
| Higher Education | 18,400 | 18,300 | 17,400 | 17,000 | 400 | 2.4% |
| Utilities | 5,800 | 5,800 | 5,800 | 5,700 | 100 | 1.8% |
| Mining | 1,000 | 1,000 | 1,000 | 1,100 | (100) | -9.1% |
| Local Government | 78,400 | 77,900 | 78,100 | 80,600 | (2,500) | -3.1% |
| Mgmt & Professions Federal & State | 42,300 | 42,600 | 40,200 | 43,000 | (2,800) | -6.5% |
| | 39,300 | 39,500 | 39,400 | 46,500 | (7,100) | -15.3% |
| Clean Work, Good Pay | 185,200 | 185,100 | 181,900 | 193,900 | (12,000) | -6.2% |
| Health Care | 106,500 | 106,800 | 107,500 | 104,000 | 3,500 | 3.4% |
| Financial Activities | 41,700 | 42,400 | 42,600 | 41,100 | 1,500 | 3.6% |
| Admin. Support | 42,400 | 41,900 | 43,300 | 43,100 | 200 | 0.5% |
| Publish, telecomm, Other | 16,200 | 16,100 | 16,100 | 16,000 | 100 | 0.6% |
| Education | 105,100 | 104,800 | 104,100 | 106,700 | (2,600) | -2.4% |
| Clean Work, Moderate Pay | 311,900 | 312,000 | 313,600 | 310,900 | 2,700 | 0.9% |
| Distribution & Transportation | 111,000 | 111,200 | 112,300 | 109,600 | 2,700 | 2.5% |
| Manufacturing | 82,900 | 83,100 | 84,100 | 85,100 | (1,000) | -1.2% |
| Construction | 57,100 | 55,900 | 56,000 | 61,300 | (5,300) | -8.6% |
| Dirty Work, Moderate Pay | 251,000 | 250,200 | 252,400 | 256,000 | (3,600) | -1.4% |
| Employment Agcy | 34,100 | 36,200 | 36,300 | 34,500 | 1,800 | 5.2% |
| Agriculture | 15,500 | 15,800 | 16,100 | 15,200 | 900 | 5.9% |
| Amusement | 17,000 | 17,300 | 16,200 | 15,800 | 400 | 2.5% |
| Social Assistance | 13,400 | 13,500 | 13,600 | 13,600 | 0 | 0.0% |
| Accommodation | 13,600 | 13,500 | 12,900 | 13,800 | (900) | -6.5% |
| Retail Trade | 152,600 | 152,600 | 152,400 | 154,000 | (1,600) | -1.0% |
| Eating & Drinking | 93,200 | 93,400 | 92,800 | 94,500 | (1,700) | -1.8% |
| Other Services | 37,300 | 36,900 | 36,700 | 38,700 | (2,000) | -5.2% |
| Lower Paying Jobs | 376,700 | 379,200 | 377,000 | 380,100 | (3,100) | -0.8% |
| Total, All Industries | 1,124,800 | 1,126,500 | 1,124,900 | 1,140,900 | (16,000) | -1.4% |
| Civilian Labor Force | 1,753,400 | 1,738,700 | 1,727,900 | 1,764,700 | (36,800) | -2.1% |
| Employment | 1,509,400 | 1,506,400 | 1,499,700 | 1,519,500 | (19,800) | -1.3% |
| Unemployment | 244,000 | 232,200 | 228,200 | 245,200 | (17,000) | -6.9% |
| Unemployment Rate | 13.9% | 13.4% | 13.2% | 13.9% | -0.7% | -5.0% |

Source: Employment Development Department

DIRTY WORK, MODERATE PAY: -1.4%

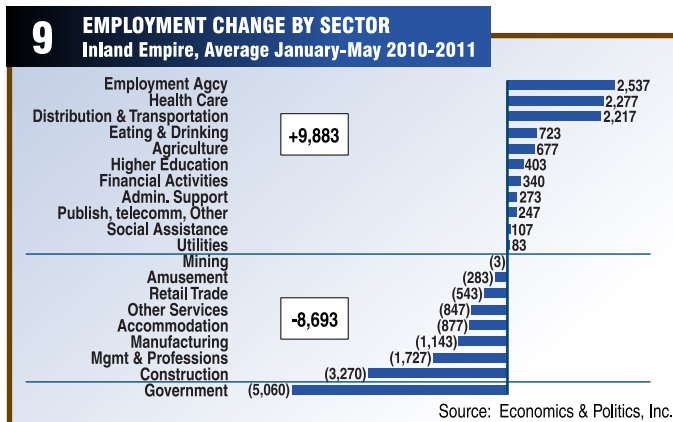
Blue collar sectors were -3,600 jobs below May 2010 (-1.4%), though some positives are appearing. Distribution and transportation added 2,700 jobs (2.5%) as port import activity surged in 2010 and continued growing in 2011 (*Exhibit 5*). Manufacturing was off -1,000 jobs (-1.2%) but has added 1,200 since March 2011. Construction was down -5,300 jobs (-8.6%) as the sector continued to struggle.

LOWER PAYING JOBS: -0.8%

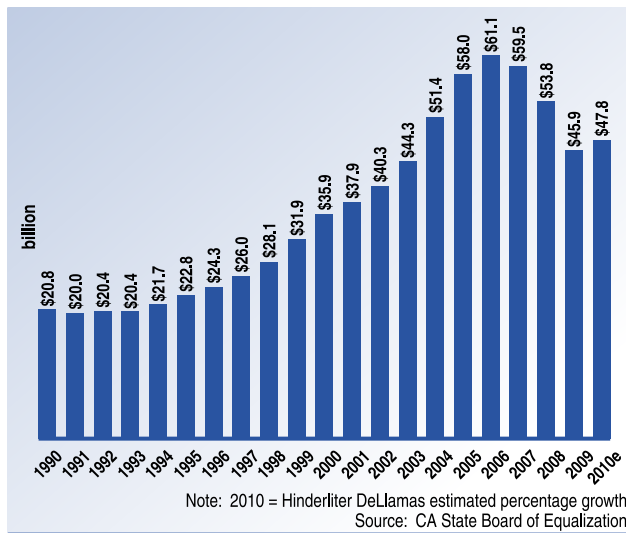
The Inland Empire's lower paying sectors lost -3,100 jobs compared to May 2010 (-0.8%). Employment agencies added 1,800 jobs (+5.2%) as some employers expanded but were hesitant to add full time workers. Agriculture added 900 positions (5.9%) with worldwide demand for food rising. "Staycations" allowed amusement to gain 400 jobs as people stayed closer to home (+2.5%). Social assistance was flat with increased needs but lack of financing. Weak national and California economies caused accommodation to drop 900 workers (-6.5%). Retailing dropped -1,600 jobs (-1.0%), eating & drinking fell -1,700 (-1.8%) and other services lost -2,000 jobs (-5.2%) as families cutback local spending due to high unemployment, falling incomes and high gasoline and food prices.

COMMENT

The Inland Empire economy continues to shrink, albeit more slowly, with public sector losses outstripping hesitant gains in the private sector. ■

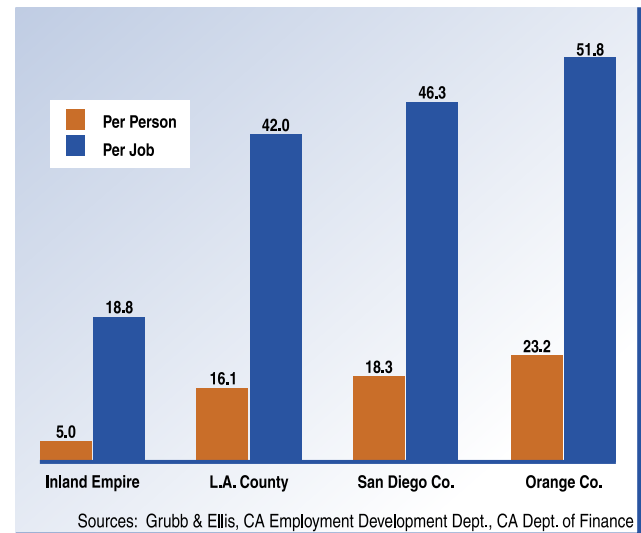


10 TAXABLE RETAIL SALES Inland Empire, 1990-2010e (billion)



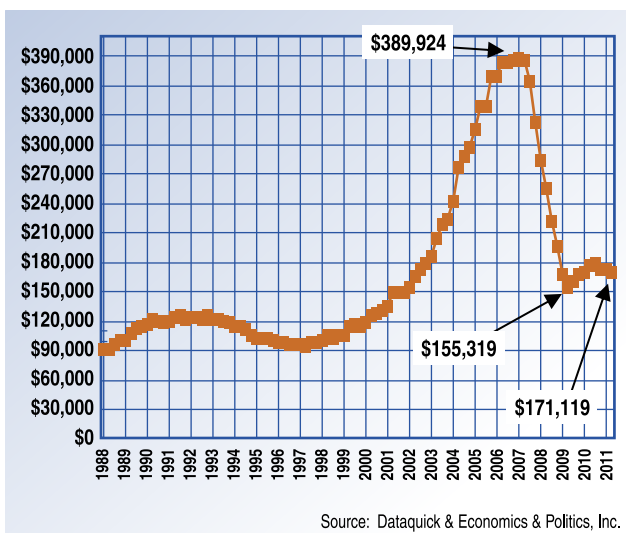
Taxable Retail Sales. In 2010, taxable retail sales in the Inland Empire are estimated at \$47.8 billion based upon data from Hinderliter DeLlamas. That represented a 4.1% increase from the \$45.9 billion in 2009. The increase was 4.3% in Riverside County and 3.9% in San Bernardino County. California was up 4.6%. While this represented growth, the two county region's sales were still \$13.3 billion below the peak of \$61.1 billion in 2006 (-21.9%). This is one of the reasons that local governments in the area are under serious budgetary strain.

11 OFFICE SPACE PER CAPITA & PER LOCAL JOB Southern California Areas, 2010



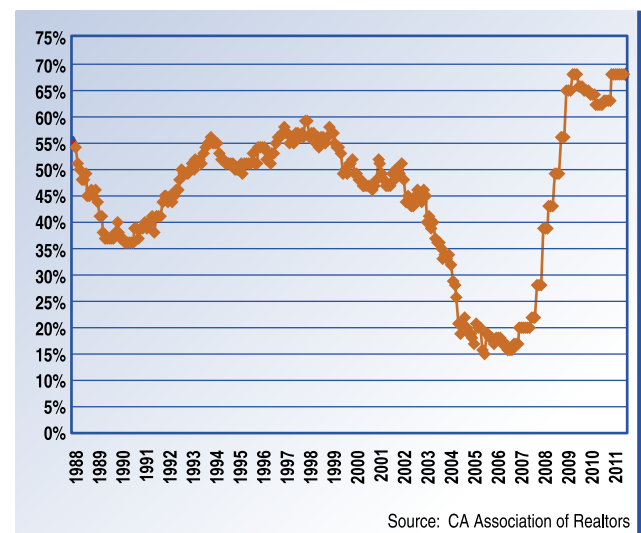
Office Space Ratios. In 2010, the Inland Empire has much less occupied office space than its population or jobs base would seem to support. In 2010, there were 5.0 square feet of occupied offices per person in the area. That is far below the 16.1 in Los Angeles, 18.3 in San Diego or 23.2 in Orange counties. Clearly, numerous population serving operations are serving the region from coastal offices. Also, major financial, engineering, info-tech and scientific organizations are not migrating inland. There are 18.8 square feet of space for each inland job, far below the 42.0 in Los Angeles, 46.3 in San Diego and 51.8 in Orange counties.

12 PRICE TRENDS, EXISTING HOMES Inland Empire, 1988-2011, Quarterly



Median Existing Home Price. In first quarter 2007, the Inland Empire's median home price peaked at \$389,924. It subsequently plunged to \$155,319 by second quarter 2009 with the housing crisis. Since then prices have risen and remained at a rough plateau. The level was \$171,119 in second quarter 2011, up 10.2% from the low. There has been some decay since second quarter 2010 when prices reached \$178,302, putting them down -4.1% for the past year. Last year, prices were influenced by abnormally strong demand brought on by buyers racing to qualify for expiring federal tax credits.

13 HOUSING AFFORDABILITY, INLAND EMPIRE Share of Families Afford Median Priced Home, 1988-2011



Affordability. During the housing bubble from 2004-2007, affordability dropped to a point where just 15% of Inland Empire families could afford the bottom 50% of homes sold in the area. That was an historic low and set up the collapse in demand that followed. In 2011, with interest rates remaining near historic lows and prices down dramatically, affordability returned to a peak at 68%. The last time the inland region's affordability soared was in the mid-1990s when it reached 58% in 1997. Inside the region, affordability rate was 63% in Riverside County and 76% in San Bernardino County.

14 SINGLE FAMILY HOME PRICES 2nd Quarter, 2010-2011

| County | 2nd Qtr-10 | 2nd Qtr-11 | % Chg. |
|-----------------------|------------|------------|--------|
| NEW HOMES | | | |
| Riverside | \$287,500 | \$289,000 | 0.5% |
| San Bernardino | 285,000 | 230,000 | -19.3% |
| Los Angeles | 395,500 | 385,000 | -2.7% |
| Orange | 610,000 | 569,500 | -6.6% |
| San Diego | 418,000 | 445,000 | 6.5% |
| Ventura | 356,500 | 330,000 | -7.4% |
| So. California | \$387,700 | \$396,100 | 2.2% |
| EXISTING HOMES | | | |
| Riverside | \$200,000 | \$190,000 | -5.0% |
| San Bernardino | 150,000 | 146,000 | -2.7% |
| Los Angeles | 345,000 | 330,000 | -4.3% |
| Orange | 515,000 | 500,000 | -2.9% |
| San Diego | 377,000 | 362,500 | -3.8% |
| Ventura | 415,000 | 410,000 | -1.2% |
| So. California | \$311,100 | \$300,300 | -3.5% |

Source: Dataquick

15 HOME DEED RECORDINGS Inland Empire, 2nd Quarter, 2010-2011

| NEW HOMES | | | | EXISTING HOMES | | | |
|---|--------------|--------------|---------------|---|---------------|---------------|---------------|
| Area | 2nd-10 | 2nd-11 | % Chg. | Area | 2nd-10 | 2nd-11 | % Chg. |
| SB Desert | 13 | 13 | 0.0% | Redlands, Loma Linda, Yucaipa | 436 | 436 | 0.0% |
| Victor Valley | 104 | 89 | -14.4% | SB Mountains | 558 | 514 | -7.9% |
| Redlands, Loma Linda, Yucaipa | 18 | 12 | -33.3% | SB Desert | 550 | 484 | -12.0% |
| SB Mountains | 3 | 2 | -33.3% | San Bernardino, Highland | 973 | 841 | -13.6% |
| San Bernardino, Highland | 51 | 32 | -37.3% | Victor Valley | 1,811 | 1,519 | -16.1% |
| Chino, CHill, Mtcl, Ont, RC, Upl | 223 | 86 | -61.4% | Fontana, Rialto, Colton, GT | 1,541 | 1,291 | -16.2% |
| Fontana, Rialto, Colton, GT | 166 | 47 | -71.7% | Chino, CHill, Mtcl, Ont, RC, Upl | 1,407 | 1,140 | -19.0% |
| SAN BDNO COUNTY | 578 | 281 | -51.4% | SAN BDNO COUNTY | 7,276 | 6,225 | -14.4% |
| Riverside | 41 | 72 | 75.6% | Coachella Valley | 1,590 | 1,549 | -2.6% |
| Coachella Valley | 79 | 80 | 1.3% | Beaumont, Banning, Calimesa | 425 | 410 | -3.5% |
| Murrieta, Temecula, L. Elsinore, Wildomar | 301 | 227 | -24.6% | Riverside Rural | 744 | 715 | -3.9% |
| Riverside Rural | 101 | 75 | -25.7% | Riverside | 1,340 | 1,145 | -14.6% |
| Moreno Valley | 50 | 31 | -38.0% | Perris, Hemet, S. Jacinto, Menifee | 2,345 | 1,988 | -15.2% |
| Perris, Hemet, S. Jacinto, Menifee | 300 | 173 | -42.3% | Murrieta, Temecula, L. Elsinore, Wildomar | 2,011 | 1,699 | -15.5% |
| Corona, Norco | 330 | 163 | -50.6% | Corona, Norco | 1,167 | 948 | -18.8% |
| Beaumont, Banning, Calimesa | 147 | 42 | -71.4% | Moreno Valley | 942 | 741 | -21.3% |
| RIVERSIDE COUNTY | 1,349 | 863 | -36.0% | RIVERSIDE COUNTY | 10,564 | 9,195 | -13.0% |
| INLAND EMPIRE | 1,927 | 1,144 | -40.6% | INLAND EMPIRE | 17,840 | 15,420 | -13.6% |

Source: Dataquick

NEW & EXISTING HOMES ... PRICES UP, VOLUME RELATIVELY FLAT

In second quarter 2011, the Inland Empire recorded 15,408 *seasonally adjusted* detached home sales (*Exhibit 16*). This was down from the peak of 29,612 in fourth quarter 2005 but up 35.5% from the 11,376 low in fourth quarter 2007. In recent quarters, volume has slowed from 20,848 in first quarter 2009, largely as a lack of foreclosure related supply has inhibited sales. The raw data show existing home sales of 15,420 units (-13.6% from 2nd quarter 2010). Quarterly new home volume were down to just 1,144 units (-40.6% from 2nd quarter 2010) (*Exhibit 15*).

In second quarter 2011, Riverside County's median new home price was up 0.5% from a year ago while its existing home price was down -5.0% (*Exhibit 14*). San Bernardino County's median new home price was down -19.3%; its existing home price fell -2.7%. The inland area's combined existing homes (\$171,000) remain a bargain, \$159,000 below Los Angeles County (\$330,000) and \$329,000 under Orange County (\$500,000).

Sales. Riverside County recorded just 863 new home sales during second quarter 2011, down -36.0% from 1,349 in 2010. As recordings come at the end of escrow, this included many sales from the first quarter.

Riverside had the largest percentage gain (75.6%; 72 sales). The county's volume leader was Murrieta, Temecula, Lake Elsinore, Wildomar (-24.6%; 227 sales). Riverside County's existing home volume fell -13.0% from second quarter 2010, reaching 9,195 sales. The Coachella Valley's volume fell the least (-2.6%, 1,549 sales). The volume leader was Perris, Hemet, San Jacinto, Menifee (-15.2%; 1,988 sales).

San Bernardino County's second quarter 2011 new home sales fell -51.4% to 281 units. The outlying desert market was flat (0.0%; 13 sales). The volume leader was the Victor Valley (-14.4%; 89 sales). Existing home sales in San Bernardino County fell -14.4% to 6,225. Sales in Redlands, Loma Linda, Yucaipa were flat (0.0%; 436 sales). The Victor Valley area was the volume leader (-16.1%; 1,519 sales).

Prices. Riverside County's second quarter 2011 median new home price of \$289,000, up 0.5% from last year's \$287,500 and above the prior quarter's \$284,750. Its median existing home price was \$190,000, down from \$200,000 the prior year (-5.0%) and down from the prior quarter's \$192,500. San Bernardino County's median new home price was \$230,000, down from last year's \$285,000 (-19.3%) and equal to the prior quarter's \$230,000. Its existing median home price of \$146,000 was down -2.7% from \$150,000 a year ago, and down slightly from last quarter's \$150,000.

The Future. While the Inland Empire's new home market remains mired in a depression, the market is showing some life with the second quarter 2011 price level continuing to remain above the first quarter 2009 lows. With affordability at 68% (*Exhibit 13*), there has been sufficient demand from first time home buyers and investors to offset the flow of existing homes on the market, largely from foreclosures. However, with only 53.4% of the area's problem homes having received Notices of Default (*Exhibit 7*) and not all of them having been foreclosed upon and sold, the housing market has a long way to go. ■

16 ALL HOME SALES, INLAND EMPIRE Seasonally Adjusted, by quarter, 1988-2011

